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ACTION ARA-20

INFO OCT-01 AF-10 EUR-25 EA-11 NEA-14 ISO-00 CIAE-00

DODE-00 INR-10 NSAE-00 PA-04 RSC-01 PRS-01 SP-03

AEC-11 AID-20 CEA-02 CIEP-02 COME-00 EB-11 FEA-02

FPC-01 H-03 INT-08 L-03 NSC-07 OMB-01 PM-07 SAM-01

SCI-06 SS-20 STR-08 TRSE-00 USIE-00 INRE-00 NSCE-00

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AMCONSUL DHAHRAN

UFNPS/USMISSION OECD PARIS 316

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E.O. 11652: N/A

TAGS: ENRG, VE

SUBJECT: PRESIDENTIAL STATEMENT ON PETROLEUM REVERSION

REF: CARACAS 4420

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SUMMARY. REFTEL BRIEFLY REPORTED MAIN POINTS ON STATEMENT

MAY 16 BY VENEZUELAN PRESIDENT CARLOS ANDRES PEREZ ON NATIONALIZATION OF PETROLEUM COMPANIES. THIS MESSAGE IS A MORE DETAILED SUMMARY COVERING SUCH TOPICS AS TIMING OF NATIONALIZATION, COMPENSATION, METHOD OF NATIONALIZATION, FUTURE ORGANIZATION OF PETROLEUM INDUSTRY, AND ASSURANCES GIVEN BY VENEZUELAN PRESIDENT TO VARIOUS PARTIES AFFECTED. END SUMMARY

1. PRESIDENT PEREZ DELIVERED AN IMPORTANT ADDRESS ON PETROLEUM NATIONALIZATION MAY 16 AT A CEREMONY HELD TO SWEAR IN 36 MEMBERS OF SPECIAL COMMISSION OF DISTINGUISHED CITIZENS AND EXPERTS WHO WILL ADVISE GOVERNMENT ON PETROLEUM NATIONALIZATION.

2. WORDING OF PRESIDENT'S DECISION ON REVERSION - "I AM ANNOUNCING SOLEMNLY TO THE COUNTRY THAT I HAVE RESOLVED, WITH UNANIMOUS SUPPORT OF COUNCIL OF MINISTERS AND FULFILLING MANDATE GIVEN TO ME BY VENEZUELAN PEOPLE ON DECEMBER 9, TO PROCEED IMMEDIATELY TO TAKE BACK PETROLEUM CONCESSIONS THAT WILL REVERT TO VENEZUELAN STATE IN DECADES OF 80'S AND 90'S, WITHOUT AWAITING PERIOD SPECIFIED IN THE CONCESSIONS."

3. TIMING OF REVERSION - ALTHOUGH PRESIDENT PEREZ ANNOUNCED NO NEW TIMETABLE FOR A REVERSION, IT IS CLEAR THAT HE WISHED TO CREATE A PUBLIC IMPRESSION OF A SPEEDING UP OF THE PROCESS AND IT IS THEREFORE LOGICAL TO ASSUME COMPLETION SOMEWHAT EARLIER THAN 2-YEAR DEADLINE HE HAD EARLIER PUBLICLY SPECIFIED. IN THIS MESSAGE PEREZ SAID, WITH RESPECT TO TIMING, IMPLEMENTATION OF THE DECISION TODAY ADOPTED BY MY GOVERNMENT WILL TAKE THE TIME THAT SHALL BE NECESSARY." HE WENT ON TO URGE THE SPECIAL COMMISSION ON REVERSION TO COMPLETE ITS WORK AS QUICKLY AS POSSIBLE, BUT DID NOT CHANGE 6-MONTH DEADLINE IT HAS BEEN GIVEN FOR SUBMISSION OF ITS REPORT.

4. ASSURANCES TO AFFECTED PARTIES - PRESIDENT PEREZ GAVE SWEEPING BUT RATHER GENERAL ASSURANCES TO VARIOUS PARTIES THAT WOULD BE AFFECTED BY PETROLEUM NATIONALIZATION. HE SAID, "TO INTERNATIONAL OIL COMPANIES AND TO COUNTRIES THAT RECEIVE OUR OIL I CAN GIVE ASSURANCES IN THE NAME OF THE NATION THAT WE WILL NOT AFFECT LEGITIMATE RIGHTS NOR FAIL TO FULFILL OBLIGATIONS FREELY CONTRACTED BY THE COUNTRY AND IN ACCORDANCE WITH CONSTITUTIONAL NORMS THAT GUIDE THE REPUBLIC." HE FURTHER SAID, "VENEZUELA MUST LEAVE LIMITED OFFICIAL USE

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ITSELF WITHOUT SUSPICIONS OF NATIONAL INCONSISTENCIES OR ARBITRARINESS OR VIOLATIONS OF LAW. NATIONAL INTERESTS, LINKED WITH CONSTITUTIONAL NORMS THAT DEFINE IT, IS AND WILL BE GUIDE WHICH GOVERNS ACTIONS OF MY GOVERNMENT TO HONOR THE CONFIDENCE DEPOSITED IN ME AND THE GREAT PEOPLE OF VENEZUELA." PRESIDENT PEREZ ALSO GAVE ASSURANCES TO EMPLOYEES AND WORKERS, IN THE FOLLOWING TERMS: "TO THOSE WHO WORK IN INTERNATIONAL ENTERPRISES, I WANT TO SAY THAT THEY CONSTITUTE A FUNDAMENTAL VALUE OF THE

COUNTRY AND NO DETERMINATION THAT RESULTS FROM THIS STEP THAT WE HAVE JUST TAKEN IN THE NATIONAL HISTORY WILL IGNORE THEM OR LEAVE THEM WITHOUT PARTICIPATION."

5. METHOD OF NATIONALIZATION - PRESIDENT PEREZ INDICATED IN HIS SPEECH THAT HE HOPES TO ACHIEVE A NEGOTIATED NATIONALIZATION WITHOUT HAVING TO HAVE RECOURSE TO POWERS OF EXPROPRIATION OR OTHER LEGAL PROCESSES. HE SAID, "IF ENTERPRISES ACCEPT FORMULA THUS APPROVED AND ACCEPTED AMOUNT OF INDEMNIZATION, THE PROCESS WILL BE EASED BECAUSE THEY WILL THEN RENOUNCE THE CONCESSIONS AND THEIR REMAINING PERIOD OF VALIDITY. IF NOT, GOVERNMENT WILL PROCEED IN STRICT APPLICATION OF CONSTITUTIONAL NORMS TO DICTATE A DECREE OF EXPROPRIATION OF ALL ASSETS COVERED BY REVERSION LAW, A CIRCUMSTANCE THAT WOULD LENGTHEN THE TIME TO FULFILL THE PROPOSAL DEFINED TODAY BY OFFICIAL DECISION OF MY GOVERNMENT."

6. COMPENSATION - PRESIDENT PEREZ SET FORTH THE FOLLOWING GUIDELINES FOR PAYMENT OF COMPENSATION TO PETROLEUM COMPANIES:

- (1) PAYMENT OF JUST COMPENSATION, NOT GREATER THAN NET ASSET VALUE;
- (2) NO ACCEPTANCE OF REVALUATION OF ASSETS;
- (3) DEDUCTION OF AMOUNTS OWED TO WORKERS IN CONNECTION WITH PENSION AND SEPARATION BENEFITS, ETC.;
- (4) DEDUCTION OF ANY AMOUNTS OWED TO NATIONAL TREASURY;
- (5) PAYMENT OF COMPENSATION AND PUBLIC DEBT BONDS;
- (6) DETERMINATION FORMULA FOR COMPENSATION, IN ACCORDANCE WITH ARTICLE 101 OF THE CONSTITUTION, BY THE SPECIAL COMMITTEE ON PETROLEUM REVERSION.

7. TREATMENT OF OIL COMPANIES - PRESIDENT PEREZ SAID THAT THERE IS NO INTENTION TO JUDGE OR EVALUATE INTERNATIONAL OIL COMPANIES WHICH ARE "NOW OUR PARTNERS AND SHOULD BE TREATED AS SUCH."

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8. ORGANIZATION OF INDUSTRIES - PRESIDENT PEREZ SET FORTH A FORMULA FOR CONSOLIDATION OF INDUSTRY INTO A LEAST FOUR LARGE COMPANIES. HE SAID, "WHAT WILL BECOME THE PROPERTY OF THE STATE IS NOT THE ENTERPRISE BUT THEIR ASSETS. CONSEQUENTLY NEW JURIDICAL ENTITIES WILL HAVE TO BE CREATED TO RECEIVE THESE ASSETS AND TO EXERCISE BUSINESS ACTIVITY." WE THINK THAT AT LEAST THERE WILL BE FOUR SUCH ENTITIES TO REPLACE CREOLE, SHELL, MENE GRANDE AND THE OTHER FOR ALL THE REST."

9. SERVICE CONTRACTS - SOMEWHAT UNEXPECTEDLY, PRESIDENT PEREZ INDICATED THAT SERVICE CONTRACTS WILL BECOME SUBJECT TO NATIONALIZATION. HE DID NOT GIVE ANY DETAILS BUT SAID THAT THIS WOULD BE A MATTER OF NOT CREATING SEPARATE TREATMENT OR DISCRIMINATION AND THAT THE MATTER COULD BE NEGOTIATED BETWEEN THE STATE OIL COMPANY, CVP, AND COMPANIES HAVING SERVICE CONTRACTS,

OR ALTERNATIVELY BY MEANS OF EXPRPRIATION.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, NATIONALIZATION, SPEECHES, ECONOMIC PROGRAMS, INDEMNIFICATION, GOVERNMENT CORPORATIONS, SERVICE CONTRACTS
Control Number: n/a
Copy: SINGLE
Draft Date: 17 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974CARACA04486
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740123-0403
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740540/aaaabixq.tel
Line Count: 171
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: CARACAS 4420
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 26 MAR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 MAR 2002 by collinp0>; APPROVED <08 MAY 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PRESIDENTIAL STATEMENT ON PETROLEUM REVERSION
TAGS: ENRG, VE, (PEREZ, CARLOS ANDRES)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005